Testimony of

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Introduction

Mr. Chairman, and Members of the Committee, thank you for inviting me to testify. I am Glenn English, CEO of the National Rural Electric Cooperative Association, the national service organization of the nation's nearly 900 consumer-owned and operated electric cooperatives serving 37 million people in 47 states.

The National Rural Electric Cooperative Association (NRECA) believes the existing bulk electric transmission system is inadequate to handle the number of transactions that are occurring on it. NRECA views the Energy Policy Act Conference Report (H.R. 6) as a compromise solution that should result in additions to the transmission system and increased grid reliability.

It is NRECA's understanding that except for date and other minor changes, this year's energy bill will adopt the electricity title that was included in the H.R.6 Conference Report. NRECA supports the Conference Report. As long as there are no significant changes, NRECA continues to support it and will work towards its passage on the House floor.

Mr. Chairman, the bulk of our testimony discusses two issues in the bill that NRECA would support changes to if changes are to be made in the bill. NRECA believes that is consistent with the Committee's invitation to testify here today. However, I want to make it clear that NRECA will also support the H.R. 6 Conference Report with no changes.

If changes are made to the bill, NRECA supports two changes:

1. The Federal Energy Regulatory Commission (FERC) should not be mandated to impose participant funding as designed in Section 1242. At the very least, project costs should be assigned in a way that reflects who all of the beneficiaries are.

FERC currently has the flexibility to do that, and that authority should be maintained.

2. FERC should not be mandated to assign incentive rates for transmission. FERC currently has the flexibility to use incentive rates as well as other choices to tailor the proper rewards. FERC should maintain that flexibility.

Participant funding; Incentive rates

Section 1242: Participant Funding

Section 1242 would require FERC to approve a transmission pricing plan based on one version of participant funding that is troubling to electric cooperatives. NRECA believes that this specific provision would allow public utilities that own transmission to ***single-out*** one electric utility, including a cooperative, to pay the significant costs associated with an upgrade of the transmission infrastructure even though all of the electric utilities as part of the regional network would share the benefits of such an upgrade.

This version of participant funding will very likely result in the assignment of project costs for competitive advantage and without connecting the costs to all of the beneficiaries and benefits. It will also provide an economic development advantage to high population density urban areas over low density rural areas. Except for extraordinary cases, transmission will not get built.

There is another version of participant funding that NRECA supports. Like many others, NRECA supports participant funding that allocates transmission costs consistent with all who benefit. Under this version of participant funding, those transmission facilities that would be required only for the operation of new generating facilities built to export power outside of the region where they are sited, those participants would bear the costs of the transmission required. That approach protects native load consumers in one region from paying for additional transmission facilities that provide them no benefit. If the new transmission facilities benefit a generator, or consumers in another region, the generator or the consumers in the other region should pay the costs of the transmission facilities.

Currently, FERC has the flexibility to determine the cost allocation approach that should be used. As a result, the cost allocation is generally aligned with the benefits that accrue from the transmission system upgrades. Where all of the electric utilities in a network benefit, FERC has approved cost allocation plans requiring all of the utilities to share in the costs associated with the particular upgrade. Conversely, where it is clear only one or two electric utilities benefit, FERC has approved cost allocation plans requiring only those utilities pay the costs associated with the particular upgrade. FERC should be allowed to continue to balance the costs with the benefits.

The participant funding mandate in Section 1242 will discourage the construction of much needed transmission facilities because it can allocate costs unfairly, and makes cost recovery extremely uncertain. Under a participant funding approach, investors receive no direct income from the use of their facilities. Instead, they receive “congestion revenue rights,” or CRRs. CRRs, however, only entitle their holders to revenue in the event of congestion, which may be substantially reduced or even eliminated due to the construction of the expansion. An allocation of CRRs alone thus discourages investment in new facilities, or at the least creates a perverse incentive to undersize upgrades to maintain congestion on the system, since that is the only way they get paid.

Our approach is that the cost of any new transmission facilities required in a region to serve consumers in that region reliably or economically should be rolled into the cost of transmission in that region.

This is the best approach to encourage investment in needed transmission facilities. Rolling the costs of new transmission facilities determined by a regional plan to provide reliability or economic benefits to consumers in the region into the regional revenue requirement gives investors precisely the assurance they need that they will recover the costs of their investment as well as a reasonable rate of return.

Section 1241: Incentive Rates

NRECA believes FERC should continue to have the flexibility to either use or deny the use of incentive rates for transmission. NRECA believes higher rates of return should be a last resort, not a first resort. While the rate of return is important, the level of return required to attract capital investment is a product of the level of risk faced by investors: the lower the risk of ownership, the lower the rate of return required to attract investment. As noted previously, NRECA believes that FERC can best encourage the construction of new transmission facilities by providing investors with certainty that they will recover their costs. At the very least, FERC should be able to choose between higher rates of return or reduced risk of ownership or some combination of both as an incentive package for construction of new transmission.

Section 1236: Native Load

Mr. Chairman, within the last two years since you marked up H.R. 6, the electricity market has continued to evolve. Another transmission issue has emerged affecting many aspects of industry operations, including the diversity of fuel sources used for electric generation. Up until recently, the long-term transmission rights required to support new generation were a standard feature of all FERC tariffs. On the basis of those long-term rights, load-serving entities could and did make and finance long-term generation commitments with reasonable long-term delivered price certainty. Now in the transition to Regional Transmission Organizations (RTOs), no such rights are available because all of the focus at RTOs is on short-term spot markets. Simply put, spot markets will not get high fixed cost, power plants, with long construction lead times, built, particularly if no long-term transmission service is available.

None of the FERC-approved Regional Transmission Organizations (RTOs) today have any mechanism in place to allow utilities to secure long-term transmission rights for new power plants or power contracts. As a result, there is no way to obtain reasonable delivered price certainty. This is making construction of clean coal plants and wind generation by load-serving entities very risky, since the fixed costs of these plants are high and the savings is in lower energy costs over the life of the plant. What matters is the delivered energy cost to consumers. Without a long-term transmission right at reasonably certain rates, our consumer-owners face high risk that the delivered cost may be much higher than expected.

Long-term transmission rights assuring deliverability to load with reasonable price certainty is an essential ingredient to achieving fuel diversification. Like coal-fired generation, the other major fuel diversification alternatives — wind power and, potentially, new nuclear plants—need long-term transmission rights because they also are high fixed cost, low energy cost resources and will likely have to be located at a distance from population centers and so are very dependent on transmission.

Mr. Chairman, NRECA stands willing to join with you and others in the industry to find a vehicle to deal with this problem.

Mr. Chairman, thank you for this opportunity to present our views.